

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 IO-13 ISO-00 AID-05 CIAE-00 COME-00

EB-07 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02

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FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC 9699

INFO AMEMBASSY LONDON

AMEMBASSY TOKYO

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USDEL MTN GENEVA

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AMCONSUL BRISBANE

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EO 1152: NA

TAGS: EGEN, EFIN, EAALR, AS

SUBJ: ROUNDUP OF EARLY DEVELOPMENTS ON NEW AUSTRALIAN VARIABLE DEPOSIT RATE REQUIREMENT ON INVESTMENT

REF: A. CANBERRA 0364, B. CANBERRA 0361

1. THIS IS A ROUNDUP OF DEVELOPMENTS OF INTEREST DURING PAST WEEK ON NEW VARIABLE DEPOSIT RATE ON FOREIGN BORROWINGS ANNOUNCED BY GOA JANUARY 14.

2. DURING THE WEEK THAT HAS PASSED, THERE HAVE BEEN A FEW CLARIFICATIONS ON PROCEDURAL POINTS OF INTEREST, ALTHOUGH THERE ARE NUMEROUS QUESTIONS WHICH REMAIN TO BE CLARIFIED.

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TO DATE THERE HAS BEEN A SURPRISING ABSENCE OF GENERAL BUSINESS REACTION TO THE NEW SYSTEM.

3. THE FOLLOWING POINTS HAVE DEVELOPED IN OUR DISCUSSIONS WITH THE GOA TREASURY (1) DEPOSITS MADE BY BORROWERS UNDER THE VDR WILL BE MADE IN AUST DOLS AND REPAID AT THE END OF THREE YEARS IN AUST DOLS, LEAVING ANY EXCHANGE RISK IN THE

INTERIM WITH THE BORROWER. (2) DEPOSITS ONCE MADE WILL BE RETAINED FOR THE FULL THREE YEARS (OR UNTIL REPAYMENT IF REPAYMENT OCCURS IN LESS THAN THREE YEARS) EVEN IF THE VDR RATE IS REDUCED IN THE INTERIM OR THE VDR IS DISCONTINUED. (THIS IS CONSISTENT WITH PRACTICE UNDER THE 1972-74 VDR ARRANGEMENTS. A FEW DEPOSITS DATING FROM THAT PERIOD ARE STILL IN THE CUSTODY OF THE RESERVE BANK. (3) INDIVIDUAL DRAWDOWNS FOR WHICH RESERVE BANK APPROVAL IS REQUESTED IN THE FUTURE WILL BE SUBJECT TO THE VDR REQUIREMENT, EVEN IF THE BORROWING ITSELF WAS APPROVED BEFORE THE ADOPTION OF THE VDR SYSTEM.

(4) THE TREASURY INTENDS THAT THE EXEMPTION FOR CAPITAL INVESTMENT IN MINING AND MANUFACTURING, PROVIDED IN THE VDR ANNOUNCEMENT, WILL BE LITERALLY INTERPRETED AND WILL AMOUNT TO AN ACROSS-THE-BOARD EXEMPTION WITHOUT DISCRIMINATION AMONG DIFFERENT MANUFACTURING OR MINING INDUSTRIES. THIS WOULD MEAN THAT BORROWING FOR THESE INDUSTRIES MUST ONLY MEET THE TEST OF BEING SPECIFICALLY AND SOLELY FOR THE PURPOSE OF DIRECTLY FINANCING SUCH INVESTMENT (NEW PROJECTS OR ENTERPRISES, EXPANSION OF EXISTING PRODUCTION CAPACITY, PURCHASE OF PLANT AND EQUIPMENT, AND EXPLORATION ACTIVITIES) IN ORDER TO BE EXEMPT FROM THE VDR.

(5) THE PRECISE FUNCTION OF THE NEW COMMITTEE WHICH WILL BE ESTABLISHED TO ASSIST THE RESERVE BANK IN DECIDING ON EXEMPTION CASES IS STILL NOT CLEAR. TENTATIVELY, IT APPEARS THAT COMMITTEE'S MAIN TASK WILL BE TO PASS ON CASES, OR HAMMER OUT GUIDELINES, WHERE MARGINAL QUESTIONS ARISE ON LIMITED OFFICIAL USE

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THE ISSUE OF WHETHER A BORROWING IS IN FACT FOR NEW CAPITAL INVESTMENT AS DEFINED. IT DOES APPEAR, HOWEVER, THAT THE COMMITTEE'S DEALINGS WILL BE WITH THE RESERVE BANK, AND NOT DIRECTLY WITH THE BORROWER. THE BORROWER'S PROCEDURAL RELATIONS WOULD BE EXCLUSIVELY WITH THE BANK. (THIS IS DIFFERENT FROM THE SITUATION WITH THE FOREIGN INVESTMENT REVIEW BOARD, WHERE THE BOARD ITSELF IS THE POINT OF CONTACT BETWEEN THE GOVERNMENT AND THE PROSPECTIVE INVESTOR.)

4. PRIVATE BUSINESS AND COMMERCIAL CONTACTS WITH WHOM WE HAVE DISCUSSED THE PROBABLY SIGNIFICANCE OF THE VDR AND RELATED MEASURES DIFFER SOMEWHAT IN THEIR APPRAISAL OF ITS SIGNIFICANCE AND EFFECT. IN GENERAL, HOWEVER, THXQKMBE AT THIS EARLY STAGE INCLINED TO BELIEVE THAT THE PROVISION FOR EXEMPTION OF MINING AND MANUFACTURING AND THAT THE MAJORITY OF FOREIGN INVESTORS WILL NOT BE SERIOUSLY AFFECTED BY THESE NEW DEVELOPMENTS. IN THEIR VIEW THE MOST IMPORTANT IMPACT WILL BE (1) UPON BORROWERS SEEKING FOREIGN FUNDS TO

FINANCE SPECULATIVE INVESTMENT IN PROPERTY OR PROPERTY DEVELOPMENT, AND (2) TO A LESSER EXTENT ON AUSTRALIAN ENTERPRISES WHICH SAW THE REMOVAL OF EXCHANGE RISK THROUGH THE NOVEMBER 28 DEVALUATION AS THE OCCASION FOR AVAILING THEMSELVES OF LOWER OVERSEAS INTEREST RATES FOR THEIR NORMAL ONGOING FINANCIAL REQUIREMENTS. THEY CONFIRM THAT ONE OF THE FIRST EFFECTS OF THE NEW VDR SYSTEM HAS BEEN THE WITHDRAWAL OF NUMEROUS APPLICATIONS FOR APPROVAL OF OVERSEAS BORROWING BY APPLICANTS IN THIS CATEGORY WHO CLEARLY HAD NO OPE OF OBTAINING EXEMPTION FROM THE VDR. BECAUSE WE DO NOT YET HAVE ANY INFORMATION ON ACTUAL APPROVALS AND EXEMPTIONS UNDER THE NEW VDR SYSTEM, THESE SPECULATIONS CONCERNING ITS ADMINISTRATION AND PROBABLY EFFECT WILL REMAIN TENTATIVE AND WILL HAVE TO BE REEXAMINED IN THE COMING WEEKS AS EXPERIENCE BUILDS UP UNDER THE NEW REQUIREMENTS. IF THE OPTIMISTS PROVE CORRECT IN THEIR JUDGEMENT, HOWEVER, IT WILL MEAN THAT THE IMPORTANT DIFFERENCES BETWEEN THE CURRENT VDR ARRANGEMENTS AND THE 1972-74 VDR SYSTEM HAVE SHARPLY REDUCED ITS ADVERS IMPACT ON INVESTMENT INFLOW AND THAT THE ADDITIONAL UNCERTAINTIES INTRODUCED BY THE JANUARY 17 MEASURES ARE MARGINAL. IF IN ADDITION, AS SOME OBSERVERS BELIEVE, THE JANUARY 14 PACKAGE PROVES TO HAVE REPLACED THE PROCESS OF FREQUENT SMALL AUST DOLS EXCHANGE RATE ADJUSTMENTS, THIS WILL REPRESENT A MODEST OFFSETTING ADVANTAGE TO THE BUSINESS COMMUNITY.

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Message Attributes

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